Special Forces Pension Plan

1999 Annual Report

100-05765/

Table of Contents

Message from the Chair 2

Special Forces Pension Board 4

Plan Profile 4

Investment Report 5

Administration Report 9

Management's Responsibility for Financial Reporting 11

Auditor's Report 12

Financial Statements 13

Glossary 30

Directory – 2000 32

Italicized pension and investment terms are defined in the glossary.

ISSN: 0842-4462
Published by the Special Forces Pension Board
Edmonton, Alberta March 2000

Message From the Chair

In all respects, 1999 proved to be a good year for the Special Forces Pension Plan (SFPP). Our investments exceeded our expectations. The overall health of the Plan improved, and the Special Forces Pension (SFP) Board was able to build upon a number of Plan benefits for the betterment of our members.

Our goal as a Board is to ensure Plan benefits provide a sound financial future for pension plan members, who are the police officers, police chiefs and deputy chiefs employed by local authorities in Alberta. Looking back on the year, a number of accomplishments helped to further that goal.

Al Habstritt, Chair

Investment Returns and Policy

A 16.5% return on investments was a significant accomplishment for the SFPP Fund in 1999. This is well above the 7.5% return required to adequately fund the Plan. Our returns over the past four years have averaged 13.4%, which indicates strength over a long and a short-term basis.

Investment returns are the major source of funds for the pension plan. They far exceed the value of contributions by members, employers and the Government of Alberta. Therefore, the Board's investment policy is critical to the success of SFPP. The Board's policy aims to generate returns that meet present and future pension benefits in addition to decreasing the Plan's *unfunded liability* that occurred prior to 1992. Our investment policy is prudent and focused on the long-term viability of the pension plan.

The Board takes its responsibility for investment policy most seriously. Throughout the year, a number of educational initiatives assisted Board members to increase their knowledge base of pension investment policy. As well, the Board decided to retain the services of a pension consultant to provide its members with ongoing investment advice. This is a noteworthy decision that will pay back dividends to the Plan and its members for years to come.

Member Benefits and Plan Administration

Each year, the SFP Board looks at ways to enhance the benefits of the pension plan for its members. Using the indexing fund and a $2.1 million surplus on post-1991 contributions, the Board granted a cost-of-living adjustment (COLA) for those members with service from 1996 to 1998. The COLA is based on 60% of the Alberta *Consumer Price Index* (CPI).

The Board agreed to a number of reciprocal pension plan transfer agreements, under existing regulations, which are cost neutral to the Plan. Agreements included the Municipal Employees Benefits Program of Manitoba.

During 1999 the Board recommended to the Provincial Treasurer that a new method be implemented to calculate the Average Year's Maximum Pensionable Earnings (YMPE) for members. Previously, the YMPE was based on the five years of service preceding termination, which adversely affected members whose salaries were frozen or dropping. The new method will ensure the five-year period used to calculate the YMPE will be the same time period as that used to calculate the highest average salary.

Board members also reviewed information on the pension plan structure and design for other Canadian police services. The information will be used if any changes are required to the Plan.

As well, the Board changed actuarial assumptions for members seeking to purchase optional service or a reciprocal transfer. Now, the assumptions will be those that are used in the most recent Plan valuation.

Under changes agreed to and recommended to the Provincial Treasurer in 1999, retired SFPP members who become re-employed will be allowed to maintain their current pension, but will be prohibited from rejoining SFPP. Changes are expected to occur in 2000. As well, the Board expanded the definition of pension plan service for implementation in 2000. It also re-introduced the 60-month pension guarantee for beneficiaries or estates when a member and his/her spouse dies within five years of retirement.

In order to alleviate problems with pension plan coordination, the Board requested a re-draft of

regulations for implementation in 2000. The changes will eliminate joint life without guarantee, will ensure a standard coordination amount is used, and finally, will eliminate coordination of small pensions.

The Board requested the Provincial Treasurer amend regulations that would allow members receiving pensions benefits to obtain employment without impacting the receipt of previously earned pension benefits. The Board asked for latitude to apply regulation changes retroactively at its discretion.

Board Membership

Every two years, the Board rotates its appointed Chair to ensure equal representation by employers and employees. In 2000, Ulysses Currie, who represents the Edmonton Police Association, will assume the role of Chair.

Looking back over my two-year term, I can say without hesitation that pension plan members are well served by their representatives. Each member of the Board is unwavering in his or her commitment to provide members with a pension plan that is secure now, and into the future.

Members also are well served by those organizations and individuals that assist the SFP Board in conducting its business. On behalf of the Board, I extend sincere thanks to the staff of the Provincial Treasurer, the Auditor General of Alberta, the Investment Management Division of Alberta Treasury and Alberta Pensions Administration Corporation. Together, we will continue to help provide a sound financial future for pension plan members.

Al Habstritt
Chair
Special Forces Pension Board

Special Forces Pension Board

Front Row: *Randell Garvey, Harvey Cenaiko, David Carpenter, Janina Vanderpost*
Back Row: *Ulysses Currie - Vice-Chair, Al Habstritt - Chair, Colin Catonio*

The Special Forces Pension Board oversees the management of the Plan. The Board has seven members, including three employee nominees, three employer nominees, and one crown nominee.

Provincial legislation requires the offices of Board Chair and Vice-Chair alternate every two years between employee (police association) and employer nominees.

The Board is responsible for setting policy guidelines for the investment and management of the Fund.

The Board is also responsible for:

- ensuring current services under the Plan are properly funded;
- setting post-1991 cost-of-living adjustments (COLA) contribution rates and benefits;
- making appropriate recommendations for amending or repealing and replacing Plan rules; and
- reviewing administration decisions and ensuring the Plan is effectively administered.

Employer Nominees

Al Habstritt, Chair, City of Calgary

Randell Garvey, City of Edmonton

David Carpenter, City of Lethbridge

Employee Nominees

Ulysses Currie, Vice-Chair,
Edmonton Police Association

Colin Catonio, Lethbridge Police Association

Harvey Cenaiko, Calgary Police Association

Crown Nominee

Janina Vanderpost, Government of Alberta

Plan Profile

- The Special Forces Pension Plan (SFPP) was established in 1979 as a defined benefit pension plan for police officers, police chiefs, and deputy chiefs employed by local authorities in Alberta.
- The Plan is governed by a seven-member Board that includes three employee nominees, three employer nominees, and one crown nominee.
- The Plan serves eight employers, 2,708 *active members*, 49 *deferred members*, and 1,143 *pensioners*.
- The Plan is financed by member, employer, and Government of Alberta contributions and by the investment earnings of the SFPP Fund.
- SFPP Fund investments are managed by the Investment Management Division of Alberta Treasury. The Fund has a diversified investment portfolio of *bonds*, domestic and foreign *equity*, money market securities, mortgages and real estate.
- The Plan is administered by Alberta Pensions Administration (APA) Corporation.
- The net assets available for benefits were $976 million as at December 31, 1999 which includes $975 million of invested funds and accounts receivable of $1.3 million.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

The Year in Review

Capital markets demonstrated a wide range of returns in 1999. Fueled by stronger worldwide economic growth, *equity* markets substantially out-performed fixed income markets.

Although the US market as measured by the *Standard and Poor's 500* (S&P's 500) *Index* showed a 14.2% return for 1999, it lost its world performance leadership role as the Canadian and foreign *equity* markets showed more impressive results. *Emerging Markets* returned 57.2%, followed by the Pacific Basin which returned 48.9%, and Canada with a return of 31.7%. However, over a four-year period, the US market still shows historically high returns.

Faced with inflationary concerns and tightening central bank policies, fixed income markets significantly under-performed equity markets. Canadian *T-Bills* delivered a 4.7% return while Canadian *bonds* (as measured by the *Scotia Capital Markets Universe Bond Index*) returned -1.1%.

SFPP Earns 16.5% Return

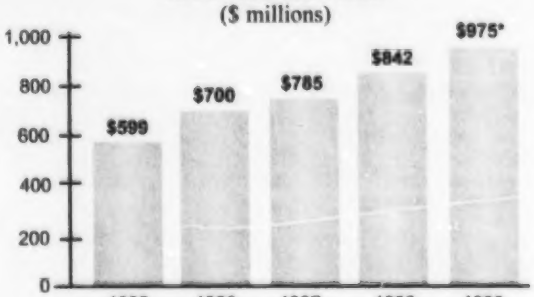
The Special Forces Pension Plan (SFPP) Fund earned a combined 16.5% return on investments in 1999, while the four-year return was 13.4%. These returns are above the Plan's 7.5 % funding requirement and substantially exceed the rate of inflation.

Investment results continue to contribute to improvement in the Plan's funded status. On a relative basis, the Plan exceeded the performance of the *SEI Median Manager* in 1999, which only returned 11.3%. On a four-year basis, the Fund returned 13.4% versus 14.1% for the *benchmark*. The strong 1999 performance has eliminated some of the four-year performance differential. At year-end, the Fund value was $975.2 million.

The decision by the Investment Management Division (IMD) to over-weight Canadian equities and under-weight bonds throughout the year was a major contributor to performance during the year as the Plan exceeded its *policy benchmark* by 1.4%. The decision to be under-weight in the US market was more than offset by the Plan's over-weight in the Pacific Basin.

In addition, there was significant value added through *active management* in the Pacific Basin, where the regional managers doubled their benchmarks. Finally, strength in the Canadian dollar reversed the negative 1998 performance in the Plan's foreign equity exposure through fully hedged equity *swaps*.

SFPP Market Value
($ millions)



* Total does not include accounts receivable of $1.3 million.

The Fund's Canadian equity performance below the benchmark was attributable to *external managers*. IMD's internally managed component performed well, as it exceeded the *Toronto Stock Exchange 300* (TSE 300) *Index* by 150 basis points. The under-performance by external managers resulted from the narrowness of the Canadian market, with most of the return coming from a few *large cap* companies, particularly Nortel Networks and its parent company BCE Inc. Our external managers with mandates to invest in medium to large companies were generally under-weighted in both Nortel Networks and BCE Inc. With *small cap* stocks out of favour, the external managers with these mandates also failed to reach their benchmarks

***Asset Mix* Policy (% of the Market Value)**
as at December 31, 1999

Fixed Income				
Cash & Short-term	0-5	0	0.2	1.0
Long-term	30-60	38.0	33.7	38.0
Total	35-65	38.0	33.9	39.0
Equity				
Canadian Equity	30-60.5	38.0	42.8	39.5
Foreign Equity	10-25	20.0	18.3	22.8
Real Estate	0-5	4.0	4.3	2.7
Total	40-70	62.0	66.1	61.0

The Year in Review

Capital markets demonstrated a wide range of returns in 1999. Fueled by stronger worldwide economic growth, *equity* markets substantially out-performed fixed income markets.

Although the US market as measured by the *Standard and Poor's 500* (S&P's 500) *Index* showed a 14.2% return for 1999, it lost its world performance leadership role as the Canadian and foreign *equity* markets showed more impressive results. *Emerging Markets* returned 57.2%, followed by the Pacific Basin which returned 48.9%, and Canada with a return of 31.7%. However, over a four-year period, the US market still shows historically high returns.

Faced with inflationary concerns and tightening central bank policies, fixed income markets significantly under-performed equity markets. Canadian *T-Bills* delivered a 4.7% return while Canadian *bonds* (as measured by the *Scotia Capital Markets Universe Bond Index*) returned -1.1%.

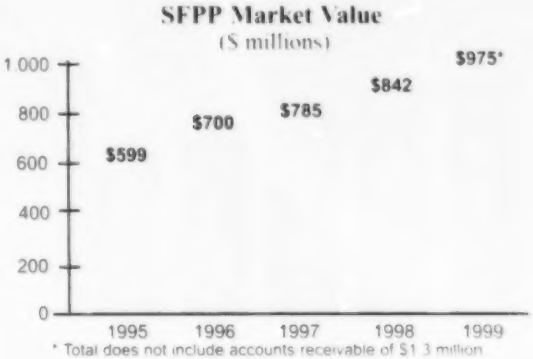
SFPP Earns 16.5% Return

The Special Forces Pension Plan (SFPP) Fund earned a combined 16.5% return on investments in 1999, while the four-year return was 13.4%. These returns are above the Plan's 7.5 % funding requirement and substantially exceed the rate of inflation.

Investment results continue to contribute to improvement in the Plan's funded status. On a relative basis, the Plan exceeded the performance of the *SEI Median Manager* in 1999, which only returned 11.3%. On a four-year basis, the Fund returned 13.4% versus 14.1% for the *benchmark*. The strong 1999 performance has eliminated some of the four-year performance differential. At year-end, the Fund value was $975.2 million.

The decision by the Investment Management Division (IMD) to over-weight Canadian equities and under-weight bonds throughout the year was a major contributor to performance during the year as the Plan exceeded its *policy benchmark* by 1.4%. The decision to be under-weight in the US market was more than offset by the Plan's over-weight in the Pacific Basin.

In addition, there was significant value added through *active management* in the Pacific Basin, where the regional managers doubled their benchmarks. Finally, strength in the Canadian dollar reversed the negative 1998 performance in the Plan's foreign equity exposure through fully hedged equity *swaps*.



The Fund's Canadian equity performance below the benchmark was attributable to *external managers*. IMD's internally managed component performed well, as it exceeded the *Toronto Stock Exchange 300* (TSE 300) *Index* by 150 basis points. The under-performance by external managers resulted from the narrowness of the Canadian market, with most of the return coming from a few *large cap* companies, particularly Nortel Networks and its parent company BCE Inc. Our external managers with mandates to invest in medium to large companies were generally under-weighted in both Nortel Networks and BCE Inc. With *small cap* stocks out of favour, the external managers with these mandates also failed to reach their benchmarks.

***Asset Mix* Policy (% of the Market Value)**

as at December 31, 1999

	Policy Range Min - Max	Policy Asset Mix	Actual Asset Mix 1999	1998
Fixed Income				
Cash & Short-term	0-20	0	0.2	1.0
Long-term	30-60	38.0	33.7	38.0
Total	**30-60**	**38.0**	**33.9**	**39.0**
Equity				
Canadian Equity	30-50.5	38.0	42.5	35.5
Foreign Equity	10-25	20.0	19.3	22.8
Real Estate	0-5	4.0	4.3	2.7
Total	**40-70**	**62.0**	**66.1**	**61.0**

Asset Class Performance Relative to Benchmarks

	1999 %	1998 %	1997 %	1996 %
Total Fund	**16.5**	**8.1**	**12.5**	**16.7**
Policy Return	15.1	10.4	13.5	17.7
SEI Median Return	11.3	8.0	14.9	18.8
CPI	2.4	1.0	1.6	1.6
Short-term	**5.0**	**5.0**	**3.7**	**7.7**
SCM 91-Day T-Bill	4.7	4.7	3.2	5.0
Fixed Income	**-1.0**	**9.2**	**9.3**	**12.2**
SCM Universe Bond	-1.1	9.2	9.6	12.3
SEI Bonds Median	-1.3	9.4	9.7	11.9
Canadian Equity	**28.8**	**-3.5**	**14.8**	**28.9**
TSE 300	31.7	-1.6	15.0	28.4
SEI Canadian Equities Median	24.1	-1.8	19.3	29.3
Foreign Equity	**28.6**	**25.7**	**15.1**	**13.1**
Morgan Stanley Capital Index	18.1	33.5	20.9	14.0
Real Estate	**7.4**	**12.7**	**20.8**	**6.4**
Russell Canadian Property Index	10.7	16.0	19.0	7.0

Compound Annualized Return

Ending December 31, 1999

	1YR %	2YR %	3YR %	4YR %	8YR %
Total Fund	**16.5**	**12.2**	**12.3**	**13.4**	**11.9**
Policy Return	15.1	12.7	13.0	14.1	12.5
SEI Median Return	11.3	9.9	11.3	13.5	n/a
CPI	2.4	1.8	1.4	1.6	1.5
Short-term	**5.0**	**5.0**	**4.6**	**5.4**	**5.9**
SCM 91-Day T-Bill	4.7	4.7	4.2	4.4	5.4
Fixed Income	**-1.0**	**4.0**	**5.7**	**7.3**	**8.9**
SCM Universe Bond	-1.1	3.9	5.8	7.4	9.0
SEI Bonds Median	-1.3	3.9	5.8	7.4	n/a
Canadian Equity	**28.8**	**11.5**	**12.6**	**16.5**	**12.8**
TSE 300	31.7	13.8	14.2	17.6	14.0
SEI Canadian Equities Median	24.1	11.0	12.5	16.9	n/a
Foreign Equity	**28.6**	**27.1**	**23.0**	**20.4**	**17.2**
Morgan Stanley Capital Index	18.1	25.5	24.0	21.4	18.1
Real Estate	**7.4**	**10.0**	**13.5**	**11.7**	**4.2**
Russell Canadian Property Index	10.7	13.3	15.2	13.1	5.6

Y2K

Y2K was a non-event, as disruptions in either the economy or capital markets did not materialize. Within IMD, a business-as-usual stance was taken and maintained throughout the year-end period. As a result, the Fund maintained a fully invested stance and took advantage of the strong equity market rally.

Outlook

The current investment outlook remains constructive although risks are evident. The US economy is heading into its tenth year of growth amid concerns regarding inflation. This has already impacted the fixed income market and will continue to impact markets during the year. Countering the rise in interest rates, however, are expectations for continued growth in world economies and corporate earnings. This growth, along with strong government fiscal positions and subdued inflation in most economies, can prolong the expansion. As a result, equity markets should out-perform bond markets for at least the first part of the year.

The narrowness of several equity markets, especially the Canadian market, is an area of concern and risk. At year-end, Nortel Networks and BCE Inc. accounted for 27% of the TSE Index. Whether over-weighted or under-weighted, these holdings had a significant impact on performance and could continue to have a similar effect as the year progresses. However, this narrowness could be an opportunity as currently under-valued stocks may rise in value in the future.

Fund Management

The assets of the Plan are held in trust by the Provincial Treasurer and invested solely for the benefit of the Plan's beneficiaries. The assets are invested according to the investment policies and guidelines of the SFP Board. Day-to-day management of the assets is delegated to IMD.

The investment objective for SFPP is for the assets of the Plan to earn a rate of return sufficient to meet or exceed the growth in the Plan's liabilities on a prudent basis. This is achieved through a diversified portfolio and includes allocations to equities for growth and to bonds to generate income and manage market volatility. The Board sets the long-run asset allocation of the Plan and the relative value added by the Fund manager is measured against a return based on the "passive" investment of the Fund according to the long-run asset allocation and against a peer group of other Canadian institutional investors.

The Plan's *Statement of Investment Policies and Goals* establishes the degree to which IMD can change the asset allocation or product mix to add value relative to the policy benchmark. In addition, each individual product will have a specific value-added target. The Board has established the following asset allocation policy.

The management of an investment product may be done internally using IMD staff or externally through the hire of a third party investment advisor. The decision to use an external manager is based on the necessary requirements to successfully implement the particular strategy. Regardless of whether the product's management is internal or external, a set of written guidelines is established for the product and the

Asset Class Performance Relative to Benchmarks

Total Fund	**16.5**	**8.1**	**12.5**	**16.7**
Policy Return	15.1	10.4	13.5	17.7
SEI Median Return	11.3	8.0	14.9	16.8
CPI	2.4	1.0	1.6	1.6
[illegible]				
Fixed Income	**-1.0**	**9.2**	**9.3**	**12.2**
SCM Universe Bond	-1.1	9.2	9.6	12.3
SEI Bonds Median	-1.3	9.4	9.7	11.9
[illegible]				
Foreign Equity	**28.6**	**25.7**	**15.1**	**13.1**
Morgan Stanley Capital Index	18.1	33.5	20.9	14.0
[illegible]				

Compound Annualized Return

Ending December 31, 1999

Total Fund	**16.5**	**12.2**	**12.3**	**13.4**	**11.9**
Policy Return	15.1	12.7	13.0	14.1	12.5
SEI Median Return	11.3	9.9	11.3	13.5	n/a
CPI	2.4	1.8	1.4	1.6	1.5
[illegible]					
Fixed Income	**-1.0**	**4.0**	**5.7**	**7.3**	**8.9**
SCM Universe Bond	-1.1	3.9	5.8	7.4	9.0
SEI Bonds Median	-1.3	3.9	5.8	7.4	n/a
[illegible]					
Foreign Equity	**28.6**	**27.1**	**23.0**	**20.4**	**17.2**
Morgan Stanley Capital Index	18.1	25.5	24.0	21.4	18.1
[illegible]					

Y2K

Y2K was a non-event, as disruptions in either the economy or capital markets did not materialize. Within IMD, a business-as-usual stance was taken and maintained throughout the year-end period. As a result, the Fund maintained a fully invested stance and took advantage of the strong equity market rally.

Outlook

The current investment outlook remains constructive although risks are evident. The US economy is heading into its tenth year of growth amid concerns regarding inflation. This has already impacted the fixed income market and will continue to impact markets during the year. Countering the rise in interest rates, however, are expectations for continued growth in world economies and corporate earnings. This growth, along with strong government fiscal positions and subdued inflation in most economies, can prolong the expansion. As a result, equity markets should out-perform bond markets for at least the first part of the year.

The narrowness of several equity markets, especially the Canadian market, is an area of concern and risk. At year-end, Nortel Networks and BCE Inc. accounted for 27% of the TSE Index. Whether over-weighted or under-weighted, these holdings had a significant impact on performance and could continue to have a similar effect as the year progresses. However, this narrowness could be an opportunity as currently under-valued stocks may rise in value in the future.

Fund Management

The assets of the Plan are held in trust by the Provincial Treasurer and invested solely for the benefit of the Plan's beneficiaries. The assets are invested according to the investment policies and guidelines of the SFP Board. Day-to-day management of the assets is delegated to IMD.

The investment objective for SFPP is for the assets of the Plan to earn a rate of return sufficient to meet or exceed the growth in the Plan's liabilities on a prudent basis. This is achieved through a diversified portfolio and includes allocations to equities for growth and to bonds to generate income and manage market volatility. The Board sets the long-run asset allocation of the Plan and the relative value added by the Fund manager is measured against a return based on the "passive" investment of the Fund according to the long-run asset allocation and against a peer group of other Canadian institutional investors.

The Plan's *Statement of Investment Policies and Goals* establishes the degree to which IMD can change the asset allocation or product mix to add value relative to the policy benchmark. In addition, each individual product will have a specific value-added target. The Board has established the following asset allocation policy.

The management of an investment product may be done internally using IMD staff or externally through the hire of a third party investment advisor. The decision to use an external manager is based on the necessary requirements to successfully implement the particular strategy. Regardless of whether the product's management is internal or external, a set of written guidelines is established for the product and the

performance is reviewed regularly with respect to the guidelines and investment objectives.

Nearly all of the Plan's investments are held indirectly through pools. As a result, IMD has been able to continue to maintain a relatively low cost structure. Investment costs were about 9 basis points of the Plan's total assets, well below the industry average of 34 basis points.

Asset Classes

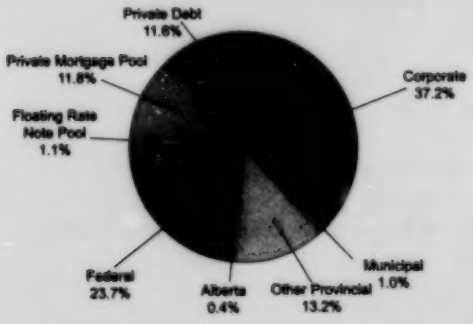
Fixed Income

Interest rates rose through the course of the year. The Scotia Capital Markets 91-Day T-Bill rate rose from 4.7% to 4.9% while the 10-year bond yield rose from 4.9% to 6.2%. When bond yields rise the price of bonds decline. As a result, the bond market as measured by the Scotia Capital Markets Universe Bond Index recorded a -1.1% return for the year.

The Fund's short-term component returned 5.0% for the year, 30 basis points higher than the *Scotia Capital Markets 91-Day T-Bill Index*. The focus is on maintaining a liquid portfolio of high quality marketable securities. The overall term to maturity will not exceed 180 days and at least 40% of the portfolio will be government and government-guaranteed securities. The out-performance can be attributed to the exposure to higher yielding bank and corporate paper.

The fixed income component is invested in a broadly diversified pool of publicly traded bonds, privately issued bonds and mortgages. In total, the Fund's fixed income return was -1.0% slightly ahead of the benchmark Scotia Capital Markets Universe Bond Index return of -1.1%. The Fund's bond component equaled the Scotia Capital Markets Universe Bond Index benchmark return while the mortgage component returned 0.2% for the year. The positive relative performance of the mortgage component was mainly due to the shorter duration of the mortgage component relative to the Scotia Capital Markets Universe Bond Index.

Summary of Bond Holdings



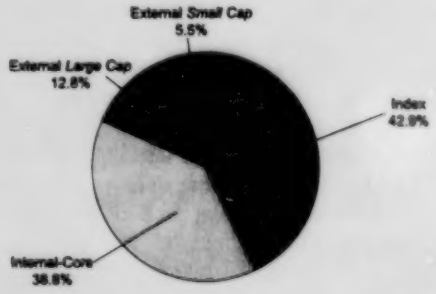
Canadian Equity

The TSE Index returned 31.7% during 1999. The performance of the TSE was strongly influenced by two issues, BCE Inc. and Nortel Networks, which accounted for 72% of the *total return* of the Index. In total the Fund's Canadian equity component returned 28.8% during 1999, 2.9% below the TSE return.

The Canadian equity component is based on a diversified management structure that includes both indexed and actively managed mandates. Two mandates are managed internally: the indexed and core products. The indexed pool, which replicates the TSE 300 Index benchmark, returned 32.1%. The core mandate, which is managed on a tightly constrained basis relative to the benchmark, returned 33.2%. The externally managed mandates under-performed the benchmark as a whole. Managers with specialized mandates to invest in small cap companies returned 8.4% in aggregate, while managers with mandates to invest in large cap companies returned 16.3%. Managers investing in small cap companies were unable, by the nature of their mandate, to invest in either BCE Inc. or Nortel. Managers with broader mandates all held reduced weightings in both stocks as they felt valuations for both companies had exceeded a reasonable basis. Further, reflecting the market weight of the two stocks in their portfolios would also result in excessive concentration that would be counter to the objective of holding a diversified portfolio of their strongest stock picks.

By year-end, strong relative performance by equity markets took the Plan offside of its asset allocation guidelines, leading to a rebalancing.

Management Structure in Canadian Equities



Nortel Networks Corp.	9.5%
BCE Inc.	8.2%
Toronto Dominion Bank	2.6%
Royal Bank of Canada	1.8%
Bank of Montreal	1.8%
Seagram Co Ltd.	1.7%
Bank of Nova Scotia	1.7%
Bombardier Inc.	1.4%
Alcan Aluminum Ltd.	1.3%
Celestica Inc.	1.2%

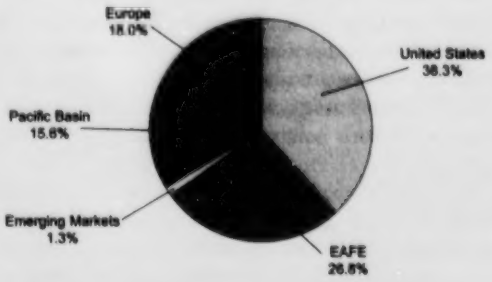
Foreign Equity

The foreign equity markets performed well in 1999 as the Fund's foreign equity component returned 28.6% versus a benchmark of 18.1% based on equal weightings of the S&P 500 Index and the Morgan Stanley Europe, Australia and Far East Index (EAFE). The strong relative performance was attributable to several factors.

- The managers in the Pacific Basin were able to out-perform their benchmark by a substantial amount. Much of the out-performance came from investments in stock benefiting from the structural changes occurring in the Japanese economy;
- an over-weight in the Pacific Basin, which was the strongest performing market during the year;
- a significant portion of the Fund's foreign equity exposure is in the form of equity swaps, where the income on Canadian short-term instruments is swapped for the return of a foreign equity index in local currency. This allows the Fund to maintain a foreign equity exposure greater than 20%. As the transaction is done in Canadian dollars, the equity swaps will out-perform relative to an unhedged benchmark if the Canadian dollar increases in value – as was the case in 1999; and
- improved relative performance from the US component. In the past, the US component had significantly under-performed its benchmark, the S&P 500 Index. Over the last four years, investment managers in general have had difficulty out-performing this Index. In 1998, it was decided to wind-up the internally managed US pool and replace it with an index pool which would match the return of the S&P 500 Index. As a result, the variance from the index has been substantially reduced.

The foreign equity exposure is broadly diversified across all markets. Relative to the policy benchmark, which is equally weighted between the US and international equities, the Fund has a slight under-weight in the US offset by an over-weight in international equities, particularly in the Pacific Basin.

Management Structure in Foreign Equities

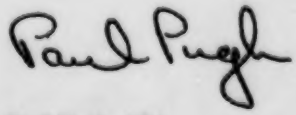


Microsoft Corp.	4.4%
General Elec Co.	3.7%
Cisco Systems Inc.	3.6%
Citigroup Inc.	2.8%
MCI Worldcom Inc.	2.2%
EMC Corp.	2.2%
Exxon Mobil Corp.	2.1%
Intel Corp.	2.0%
Lucent Technologies	2.0%
Motorola Inc.	1.8%

Nippon Tel+Tel CP	2.0%
Nokia AB OY	1.9%
Total Fina	1.8%
Fujitsu	1.5%
Sony Corp.	1.4%
Deutsche Telekom	1.4%
BP Amoco	1.4%
Mannesmann AG	1.2%
Softbank Corp.	1.2%
NTT Mobile Communications	1.2%

Real Estate

Returns in real estate were more modest in 1999. The *Russell Canadian Property Index* returned 10.7% for the year. The Fund's real estate return, if calculated on the same basis, would have been 10.9%.



Paul Pugh, CFA
Chief Investment Officer
Investment Management Division, Alberta Treasury

Administration Report

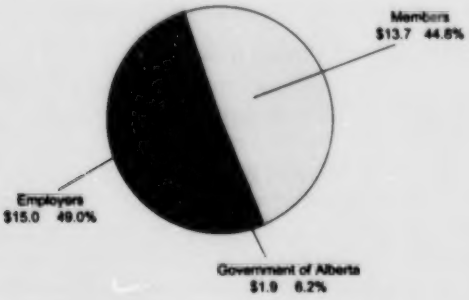
The Alberta Pensions Administration (APA) Corporation administers the Special Forces Pension Plan (SFPP) by:

- collecting contributions;
- keeping accurate and secure records;
- paying benefits to *pensioners* and members who are leaving the Plan;
- providing plan information to members and employers; and
- supporting the activities of pension boards.

APA is one of the largest public sector pension plan administrators in Canada, administering eight statutory pension plans for five pension boards and the Government of Alberta. It is a provincial corporation guided by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. In total, APA services are used by approximately 500 employers, 125,000 *active members* and 49,000 pensioners.

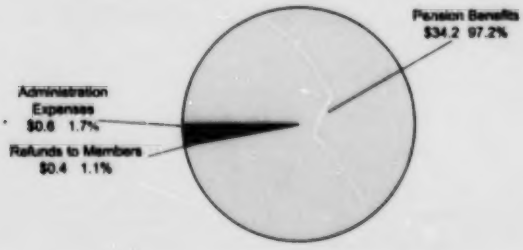
Pension Contributions

Contributions made to SFPP in 1999 totalled $30.6 million. The breakdown of contributions is as follows: members $13.7 million, employers $15 million; and Government of Alberta $1.9 million.



Pension Payments

Payments from the Plan in 1999 totalled $35.2 million. The breakdown of payments is as follows: pension benefits $34.2 million; refunds to members $0.4 million; and administration expenses $0.6 million.



SFPP Administration Expenses

SFPP's administration expenses included general administration costs, investment costs and actuarial fees. This amounted to a cost of approximately $165 per member. Of this amount, APA costs were $86 per member.

SFPP Statistical Information

The following tables provide statistical information on plan participation and retirement levels for 1999. Statistics from 1998 are shown for comparison.

Participation

Active Members	2,708	2,920
Deferred Members	48	50
Pensioners	1,143	1,088

New Pensioners

Retirements	61	68
Death Benefits to Spouses	1	0
Disability Retirements	0	1

New Pensioner Retirement Choices as at December 31, 1999

Single Life	1	2
Joint Life	0	1
Guaranteed Term	61	65

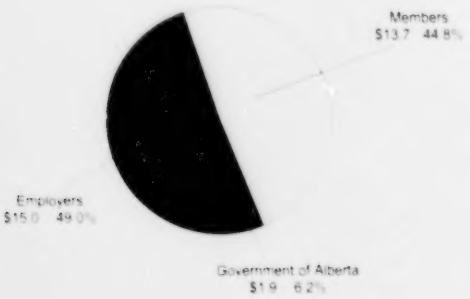
The Alberta Pensions Administration (APA) Corporation administers the Special Forces Pension Plan (SFPP) by:

- collecting contributions;
- keeping accurate and secure records;
- paying benefits to *pensioners* and members who are leaving the Plan;
- providing plan information to members and employers; and
- supporting the activities of pension boards.

APA is one of the largest public sector pension plan administrators in Canada, administering eight statutory pension plans for five pension boards and the Government of Alberta. It is a provincial corporation guided by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. In total, APA services are used by approximately 500 employers, 125,000 *active members* and 49,000 pensioners.

Pension Contributions

Contributions made to SFPP in 1999 totalled $30.6 million. The breakdown of contributions is as follows: members $13.7 million, employers $15 million; and Government of Alberta $1.9 million.



Pension Payments

Payments from the Plan in 1999 totalled $35.2 million. The breakdown of payments is as follows: pension benefits $34.2 million; refunds to members $0.4 million; and administration expenses $0.6 million.

SFPP Administration Expenses

SFPP's administration expenses included general administration costs, investment costs and actuarial fees. This amounted to a cost of approximately $165 per member. Of this amount, APA costs were $86 per member.

SFPP Statistical Information

The following tables provide statistical information on plan participation and retirement levels for 1999. Statistics from 1998 are shown for comparison.

Participation

	1999	1998
Active Members	2,708	2,560
Deferred Members	49	50
Pensioners	1,143	1,080
Total	3,900	3,690

New Pensioners

	1999	1998
Retirements	61	60
Death Benefits to Spouses	1	0
Disability Retirements	0	1
Total	62	61

New Pensioner Retirement Choices as at December 31, 1999

	1999	1998
Single Life	1	2
Joint Life	0	1
Guaranteed Term	61	58
Total	62	61

Monthly Payment Distributions as at December 31, 1999

Dollar Value ($) Per Month	Member Pensions	Spouse's Pensions	Total
1 to 999	30	0	30
1,000 to 1,999	210	19	229
2,000 to 2,999	635	3	638
3,000 to 3,999	186	0	186
4,000 and over	60	0	60
Total	1,121	22	1,143

Business Transformation - APEX Project

APA determined that the contractor for a new pension administration system to be tailored for the APEX (Alberta Pensions Excellence) project was not meeting performance targets. The vendor chose to discontinue involvement in the project.

As a result, the APEX project was put on hold in January, 2000. Full details of the matter were communicated to all pension plan board members, the Provincial Treasurer and other stakeholders.

APA's current pension administration system - while requiring replacement in the near term - remains functional. An evaluation of other options for a pension administration system is to be completed no later than mid-April, 2000 for consideration by the APA Corporate Board and stakeholders. An outside consultant will assist in the evaluation of options. APA's Board and management are committed to quick action by evaluating these options and getting APEX back in full gear.

Employer Task Force

In June, APA representatives received valuable face-to-face feedback regarding employer reporting and system requirements as a result of three all-day meetings of an Employer Task Force. Follow-up meetings of the Employer Task Force are planned for the coming year.

Year 2000 Issue

Complying with due diligence requirements associated with the Year 2000 computer issue, APA was well-prepared and had sound contingency plans in place for potential problems. As a result of this preparation, no APA customers were impacted and operations continued normally.

Organizational Transformation

Negotiations with the Alberta Union of Public Employees were successfully completed, enabling the transfer of bargaining unit employees from Alberta Treasury to APA in February.

There was a renewed commitment to training at APA, with an annual allocation established at 50 hours of training per employee. In 1999, this included formal training in pension administration as well as various courses such as time management and customer service.

The APA Recognition Program introduced in mid-1999 formally acknowledges extraordinary efforts by employees and encourages a corporate culture of recognition.

Communications

In 1999, the 1998 SFPP Annual Report and Highlights were published on the APA Web site at www.apaco.ab.ca. Improvements will be made to APA's Web site and other pension plan Web sites in the coming year.

During the year, APA provided a total of 10 SFPP Member Information Seminars and produced Member Annual Statements for distribution by employers.

Performance Measurements

Each year APA participates in a nation-wide survey of public sector pension administrators known as the Quantitative Service Measurement (QSM). The 1999 results showed APA continues to be one of the most cost-effective pension plan administrators of similar size.

In addition, APA annually surveys employers to determine their level of satisfaction with APA services. The customer survey conducted in early 1999 received responses from about half the employers. Of those reporting, more than 95% were "somewhat satisfied" "satisfied" or "very satisfied" with services provided.

Acknowledgements

APA wishes to acknowledge the SFP Board and the Provincial Treasurer for their support throughout the year. We also thank employers for their cooperation and for meeting timelines for year-end reporting of employee data.

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

Monthly Payment Distributions
as at December 31, 1999

Dollar Value of Per Month	Member's Pensions	Spouse's Pensions	Total
1 to [illegible]	[illegible]	0	[illegible]
1,000 to 1,999	210	[illegible]	[illegible]
2,000 to 2,999	[illegible]	3	[illegible]
3,000 to 3,999	[illegible]	0	[illegible]
4,000 and over	[illegible]	0	[illegible]
Total	[illegible]	[illegible]	[illegible]

Business Transformation - APEX Project

APA determined that the contractor for a new pension administration system to be tailored for the APEX (Alberta Pensions Excellence) project was not meeting performance targets. The vendor chose to discontinue involvement in the project.

As a result, the APEX project was put on hold in January, 2000. Full details of the matter were communicated to all pension plan board members, the Provincial Treasurer and other stakeholders.

APA's current pension administration system - while requiring replacement in the near term - remains functional. An evaluation of other options for a pension administration system is to be completed no later than mid-April, 2000 for consideration by the APA Corporate Board and stakeholders. An outside consultant will assist in the evaluation of options. APA's Board and management are committed to quick action by evaluating these options and getting APEX back in full gear.

Employer Task Force

In June, APA representatives received valuable face-to-face feedback regarding employer reporting and system requirements as a result of three all-day meetings of an Employer Task Force. Follow-up meetings of the Employer Task Force are planned for the coming year.

Year 2000 Issue

Complying with due diligence requirements associated with the Year 2000 computer issue, APA was well-prepared and had sound contingency plans in place for potential problems. As a result of this preparation, no APA customers were impacted and operations continued normally.

Organizational Transformation

Negotiations with the Alberta Union of Public Employees were successfully completed, enabling the transfer of bargaining unit employees from Alberta Treasury to APA in February.

There was a renewed commitment to training at APA, with an annual allocation established at 50 hours of training per employee. In 1999, this included formal training in pension administration as well as various courses such as time management and customer service.

The APA Recognition Program introduced in mid-1999 formally acknowledges extraordinary efforts by employees and encourages a corporate culture of recognition.

Communications

In 1999, the 1998 SFPP Annual Report and Highlights were published on the APA Web site at www.apaco.ab.ca. Improvements will be made to APA's Web site and other pension plan Web sites in the coming year.

During the year, APA provided a total of 10 SFPP Member Information Seminars and produced Member Annual Statements for distribution by employers.

Performance Measurements

Each year APA participates in a nation-wide survey of public sector pension administrators known as the Quantitative Service Measurement (QSM). The 1999 results showed APA continues to be one of the most cost-effective pension plan administrators of similar size.

In addition, APA annually surveys employers to determine their level of satisfaction with APA services. The customer survey conducted in early 1999 received responses from about half the employers. Of those reporting, more than 95% were "somewhat satisfied" "satisfied" or "very satisfied" with services provided.

Acknowledgements

APA wishes to acknowledge the SFP Board and the Provincial Treasurer for their support throughout the year. We also thank employers for their cooperation and for meeting timelines for year-end reporting of employee data.

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

Management's Responsibility for Financial Reporting

The financial statements and information in the 1999 Annual Report are the responsibility of the Provincial Treasurer and Alberta Pensions Administration (APA) Corporation and have been approved by management and the Board.

The financial statements have been prepared in conformity with generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 1999 Annual Report that relates to the operations and financial position of the Special Forces Pension Plan (SFPP) is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, both the Provincial Treasurer, acting in the capacity of investment manager, and APA, acting in the capacity of pension administrator, maintain a system of internal accounting controls comprising written policies, standards, and procedures, and a formal authorization structure. These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Al Habstritt
Chair
Special Forces Pension Board

Paul Pugh, CFA
Chief Investment Officer
Investment Management Division
Alberta Treasury

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

Auditor's Report

To the Special Forces Pension Board

I have audited the statement of net assets available for benefits and accrued benefits of the Special Forces Pension Plan as at December 31, 1999 and the statements of changes in net assets available for benefits, changes in accrued benefits and changes in surplus (deficiency) for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
March 6, 2000

Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 1999

($ thousands)

	1999	1998
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 975,205	$ 841,830
Accounts receivable (Note 6)	1,304	364
	976,509	842,194
Liabilities		
Accounts payable (Note 7)	66	167
Net assets available for benefits	976,443	842,027
Asset fluctuation reserve	61,700	35,000
Actuarial value of net assets available for benefits	$ 914,743	$ 807,027
Accrued Benefits		
Actuarial value of accrued benefits (Note 8)		
Plan Fund	$ 891,646	$ 826,100
Indexing Fund	2,245	12,191
	$ 893,891	$ 838,291
Excess (Deficiency) of actuarial value of net assets over actuarial value of accrued benefits (Note 8)		
Plan Fund *	$ 20,852	$ (31,264)
Indexing Fund	-	-
	$ 20,852	**$ (31,264)**

* The excess of actuarial value of Plan Fund net assets over actuarial value of accrued benefits is comprised of a pre-1992 deficiency of $11,502,000 (1998: $51,164,000) and a post-1991 surplus of $32,354,000 (1998: $19,900,000).

See accompanying notes and schedules.

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31

($ thousands)

	Plan Fund	Indexing Fund	1999	1998
Increase in assets				
Investment income (Note 9)	$ 136,522	$ 2,515	$ 139,037	$ 63,154
Contributions (Note 10)	28,366	2,227	30,593	27,757
Total increase in assets before transfer	164,888	4,742	169,630	90,911
Decrease in assets				
Pension benefits	34,204	-	34,204	32,564
Refunds to members	380	-	380	489
Administration expenses (Note 11)	630	-	630	541
Total decrease in assets before transfer	35,214	-	35,214	33,594
Increase in net assets before transfer	129,674	4,742	134,416	57,317
Transfer from the Indexing Fund to the Plan Fund (Note 12)	14,688	(14,688)	-	-
Increase (decrease) in net assets for the year	144,362	(9,946)	134,416	57,317
Net assets available for benefits at beginning of year	829,836	12,191	842,027	784,710
Net assets available for benefits at end of year	**$ 974,198**	**$ 2,245**	**$ 976,443**	**$ 842,027**

See accompanying notes and schedules.

Statement of Changes in Accrued Benefits

For periods ended December 31

($ thousands)

	Year Ended December 31, 1999			Three Years Ended December 31, 1998
	Pre-1992	**Post-1991**	**Total**	
Increase in accrued benefits				
Interest accrued on benefits	$ 48,100	$ 18,800	$ 66,900	$ 168,300
Benefits earned	-	24,600	24,600	60,100
Cost-of-living indexing adjustments and interest	-	-	-	32,591
Experience losses	-	-	-	43,100
Changes in actuarial assumptions	-	-	-	7,300
	48,100	43,400	91,500	311,391
Decrease in accrued benefits				
Benefits, transfers and interest	32,700	3,200	35,900	100,000
Net increase in accrued benefits	15,400	40,200	55,600	211,391
Accrued benefits at beginning of period	640,200	198,091	838,291	626,900
Accrued benefits at end of period (Note 8)	**$ 655,600**	**$ 238,291**	**$ 893,891**	**$ 838,291**

See accompanying notes and schedules.

Statement of Changes in Surplus (Deficiency)

For periods ended December 31

($ thousands)

	Year Ended December 31, 1999			Three Years Ended December 31, 1998
	Pre-1992	**Post-1991**	**Total**	
Surplus (Deficiency) at beginning of period	$ (51,164)	$ 19,900	$ (31,264)	$ (49,781)
Net increase in net assets available for benefits	72,862	61,554	134,416	242,208
Net increase in asset fluctuation reserve	(17,800)	(8,900)	(26,700)	(12,300)
Net increase in accrued benefits	(15,400)	(40,200)	(55,600)	(211,391)
Surplus (Deficiency) at end of period	**$ (11,502)**	**$ 32,354**	**$ 20,852**	**$ (31,264)**

See accompanying notes and schedules.

Note 1
Summary Description of the Plan

The following description of the Special Forces Pension Plan is a summary only. For a complete description of the plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-30.7, Statutes of Alberta 1993 and Alberta Regulation 369/93, as amended.

(a) General

The Special Forces Pension Plan is a contributory defined benefit pension plan for police officers employed by participating local authorities in Alberta.

(b) Funding

Plan Fund

Current service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the plan. The rates in effect at December 31, 1999, are 8.30 percent of pensionable salary for employers and 7.20 percent for employees. Rates are to be reviewed at least once every three years by the Special Forces Pension Board based on recommendations of the plan's actuary.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 1999 are 1.25 percent of pensionable salary for the Province of Alberta, and 0.75 percent each for employers and employees.

Indexing Fund

Benefit payments are funded by post-1991 cost-of-living adjustment (COLA) (see Note 1(i)) contributions from employers and employees at rates that are expected to meet or exceed the funding or solvency requirements of the plan. The rates in effect at December 31, 1999 are 0.75 percent of pensionable salary each for employers and employees. Rates are to be reviewed at least once every three years by the board based on recommendations of the plan's actuary.

Subject to the *Employment Pension Plans Act*, the indexing fund may receive surpluses of the plan fund respecting service after 1991.

(c) Retirement Benefits

The plan provides for a pension of 2.0 percent for each year of pensionable service based on the average salary of the five highest consecutive years. The maximum service allowable under the plan is 35 years. Members are entitled to a pension if they have at least 25 years of service or have at least five years of service and attained age 55. Pensions will be reduced at the age of 65.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member if the member had at least five years of service. Benefits may take the form of a survivor pension, if the beneficiary is a spouse or a dependent minor child, or a lump sum payment. A surviving spouse or the beneficiary of a deceased member with less than five years of service is entitled to receive death benefits in the form of a lump sum payment.

(f) Termination Benefits

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest.

(g) Guarantee

Payment of all benefits arising from service before 1994, excluding post-1991 COLA benefits on 1992 and 1993 service (see Note 1 (i)), is guaranteed by the Province of Alberta.

(h) Prior Service and Transfers

All prior service purchases are to be made on a basis that is cost-neutral to the plan.

All existing reciprocal agreements were terminated in 1994. New reciprocal agreements have been or are in the process of being renegotiated to provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments (COLA)

Pensions payable by the plan fund are increased each year by 60 percent of the increase in the Alberta Consumer Price Index for service before 1992. Cost-of-living adjustments for service after 1991 are payable by the indexing fund at rates determined by the Special Forces Pension Board.

(j) Income Taxes

The plan is a registered pension plan as defined in the *Income Tax Act* and is not subject to income taxes. The plan's registration number is 0584375.

Note 2
Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with generally accepted accounting principles. The statements provide information about the net assets available in the plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the plan for the year. They do not reflect the funding requirements of the plan.

The majority of plan investments are held in pooled investment funds administered by Alberta Treasury. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The plan's respective percentage ownership in pooled investment funds at December 31, 1999 was as follows:

	% Ownership 1999	1998
Canadian Dollar Public Bond Pool	3.6	3.4
Canadian Pooled Equities Fund	6.1	6.6
Domestic Passive Equity Pooled Fund	7.0	5.0
External Managers Fund	3.4	4.5
EAFE Structured Equity Pooled Fund	2.5	-
Floating Rate Note Pool	0.1	-
Private Equity Pool	6.4	6.3
Private Mortgage Pool	3.8	4.1
Private Real Estate Pool	3.4	4.0
US Passive Equity Pooled Fund	3.6	4.3
US Structured Equity Pooled Fund	2.4	-
United States Pooled Equities Fund	4.5	4.5
Domestic Structured Equity Pooled Fund	-	0.4
Global Structured Equity Pooled Fund	-	2.5
Private Bond Pool	-	4.1
Transition Account	-	7.4

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the plan or by pooled investment funds are explained in the following paragraphs.

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by Alberta Treasury.

The fair value of private equities is estimated by Alberta Treasury.

Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net realized and unrealized gains and losses are amortized equally over three years.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(f) Derivative Financial Instruments

Income and expense on index swaps and interest rate swaps are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value. As explained in Notes 4 and 5, controls are in place respecting the use of derivatives.

Note 3 Investments (Schedules A to D)

Investments are summarized as follows:

	1999		1998	
	($ thousands)	%	($ thousands)	%
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 2,393	0.2	$ 8,197	1.0
Fixed Income Securities				
Canadian Dollar Public Bond Pool (Schedule A)	286,628	29.4	278,745	33.1
Private Mortgage Pool (b)	38,306	3.9	37,886	4.5
Floating Rate Note Pool (c)	3,519	0.4	-	-
Real Rate of Return Bonds	-	-	3,226	0.4
Private Bond Pool	-	-	66	-
Total deposits and fixed income securities	330,846	33.9	328,120	39.0
Canadian Equities				
Canadian Pooled Equities Fund (Schedule B)	160,437	16.5	117,337	13.9
Domestic Passive Equity Pooled Fund (Schedule C)	177,300	18.2	95,249	11.3
External Managers Fund (Canadian) (Schedule D)	70,749	7.3	52,537	6.2
Private Equity Pool (d)	4,931	0.5	6,057	0.7
Structured Note and Transition Account	-	-	27,687	3.3
Domestic Structured Equity Pooled Fund	-	-	493	0.1
Foreign Equities				
External Managers Fund (Global) (Schedule D)	91,812	9.4	105,363	12.5
External Managers Fund (United States) (Schedule D)	38,754	4.0	25,520	3.0
EAFE Structured Equity Pooled Fund (e)	24,804	2.5	-	-
US Passive Equity Pooled Fund (f)	25,503	2.6	25,863	3.1
US Structured Equity Pooled Fund (g)	7,575	0.8	-	-
United States Pooled Equities Fund	293	-	715	0.1
Global Structured Equity Pooled Fund	-	-	34,505	4.1
Equities in Real Estate				
Private Real Estate Pool (h)	42,201	4.3	22,384	2.7
Total equities	644,359	66.1	513,710	61.0
Total investments	**$ 975,205**	**100.0**	**$ 841,830**	**100.0**

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the publicly traded bond market over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans (97.4%) and provincial bond residuals (2.6%). In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide

Note 3 Investments (Schedules A to D) continued...

diversification by property usage. The pool does not invest in mortgages on single family houses, hotels, motels, trailer parks or recreational properties. As at December 31, 1999, mortgages held by the pool have an average effective yield of 7.95% per annum based on market (1998: 6.92% per annum). Approximately 65% of the mortgages held will mature in ten years or less (1998: 90%).

(c) The Floating Rate Note Pool is managed with the objective of generating floating rate cash flows needed for the swap obligations of participants with structured investments. Through the use of interest rate swaps, the pool provides investment opportunities in high quality floating rate instruments with remaining term to maturity of ten years or less.

(d) The Private Equity Pool is in the process of orderly liquidation.

(e) The EAFE (Europe, Australia and Far East) Structured Equity Pooled Fund is managed with the objective of providing investment returns comparable to the total return of the Morgan Stanley Capital International EAFE Index. The pool provides exposure to foreign markets in Europe, Australia and Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool [see Note 3(c)] to generate the floating rate cash flows needed for its equity swap obligations.

(f) The US Passive Equity Pooled Fund is managed with the objective of attaining investment returns comparable to Standard & Poor's (S&P) 500 Total Return Index over a four-year period. The portfolio is comprised of publicly traded equities in the United States similar in weights to the S&P 500 Index. To enhance investment returns with no substantial increase in risks, the pooled fund also invests in futures, swaps and other structured investments.

(g) The US Structured Equity Pooled Fund is in the process of orderly liquidation and merging with the US Passive Equity Pooled Fund.

(h) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the pool provides diversification from the securities market.

Note 4
Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the board has established a policy asset mix of 30% to 60% fixed income instruments and 40% to 70% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Borrowing or leveraging is not allowed with the exception of pre-existing mortgages on real estate properties. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

Note 5
Derivatives: Index Swaps, Interest Rate Swaps, Foreign Exchange and Futures Contracts

Pooled funds use index and interest rate swaps to enhance return and for hedging risks. A swap is a contractual agreement between two parties to exchange a series of cash flows based on a notional amount and does not involve the exchange of the underlying principal. An index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional value. There are underlying securities supporting all swaps. Leveraging is not allowed.

The following is a summary of the plan's proportionate share of the current and contractual notional value of index and interest rate swaps held or issued by pooled funds at December 31, 1999.

	1999	1998
	($ thousands)	
Index Swaps		
Foreign equities		
EAFE Structured Equity Pool	$ 24,724	$ -
US Passive Equity Pooled Fund	25,744	25,872
US Structured Equity Pool	7,537	-
Global Structured Equity Pooled Fund	-	32,201
Canadian equities		
Domestic Passive Equity Pooled Fund	73,257	38,669
Domestic Structured Equity Pooled Fund	-	477
Bonds - Canadian Dollar Public Bond Pool	48,763	51,024
Interest Rate Swaps		
Fixed to floating rates		
Canadian Dollar Public Bond Pool	42,956	34,193
Domestic Passive Equity Pooled Fund	44,014	26,385
EAFE Structured Equity Pool	14,862	-
US Structured Equity Pool	5,211	-
US Passive Equity Pooled Fund	4,495	2,408
Floating Rate Note Pool	2,624	-
Global Structured Equity Pooled Fund	-	21,528
Domestic Structured Equity Pooled Fund	-	303
	$ 294,187	**$ 233,060**

Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future. As at December 31, 1999, the plan's proportionate share of outstanding forward foreign exchange contracts issued by the External Managers Fund amounted to $9,788,000 (1998: $20,347,000).

Stock futures contracts are contractual agreements to receive or pay cash on an agreed settlement date based on the changes in the level of a specified stock index in the future. As at December 31, 1999, the plan's proportionate share of the notional value of stock index futures contracts issued by the External Managers Fund amounted to $224,000 (1998: $Nil).

Note 6
Accounts Receivable

	1999	1998
	($ thousands)	
Contributions Receivable		
Employers	$ 554	$ 33
Employees	502	30
Province of Alberta	210	197
Refunds and transfers	38	-
Accrued investment income	-	104
	$1,304	**$ 364**

Note 7
Accounts Payable

	1999	1998
	($ thousands)	
Administration expenses	$ 55	$ 162
Benefits	11	5
	$ 66	**$ 167**

Note 8
Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the plan was carried out as at December 31, 1998 by William M. Mercer Limited and was then extrapolated to December 31, 1999. The December 31, 1998 valuation resulted in a deficiency of $31.3 million as disclosed in the Statement of Net Assets Available for Benefits and Accrued Benefits.

The valuation as at December 31, 1998 was determined using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the plan's actuary, adopted by the Special Forces Pension Board.

The major assumptions used were:

	December 31	
	1999 Extrapolation %	1998 Valuation %
Investment return	7.5	7.5
Inflation rate (after phase-in period)	3.5	3.5
Salary escalation rate*	4.0	4.0
Pension cost-of-living increase as a percent of Alberta Consumer Price Index (see Note 12)	60	60

* Includes merit and promotion.

Note 8 Accrued Benefits continued...

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the Statement of Changes in Accrued Benefits, which shows the principal components of the change in the actuarial value of accrued benefits between the last two actuarial valuations.

Based on the information provided above, the following table summarizes the actuarial value of net assets, accrued benefits, and the resulting surplus (deficiency) of the Plan Fund as at December 31, 1999.

	1999			1998
	Pre-1992	Post-1991	Total	Total
	($ thousands)			
Plan Fund net assets available for benefits	$ 689,698	$ 284,500	$ 974,198	$ 829,836
Asset fluctuation reserve	45,600	16,100	61,700	35,000
Plan Fund actuarial value of net assets	644,098	268,400	912,498	794,836
Plan Fund accrued benefits	655,600	236,046	891,646	826,100
Plan Fund surplus (deficiency)	**$ (11,502)**	**$ 32,354**	**$ 20,852**	**$ (31,264)**

As at December 31, 1999, the Indexing Fund held investments of $2,245,000 (1998 $12,191,000) with offsetting accrued benefits of the same amount.

(b) Sensitivity of Changes in Major Assumptions

The plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

As at December 31, 1999, holding the nominal investment return and salary escalation assumptions constant, a 1% increase in the assumed long-term inflation rate would result in a change in the actuarial surplus of the plan from a surplus of $21 million to a deficiency of $40 million.

As at December 31, 1999, holding the inflation and nominal investment return assumptions constant, a 1% increase in the assumed salary escalation would result in a change in the actuarial surplus of the plan from a surplus of $21 million to a deficiency of $10 million.

As at December 31, 1999, holding the inflation and salary escalation assumptions constant, a 1% increase in the assumed real long-term investment return would result in an increase in the actuarial surplus of the plan from $21 million to $125 million.

Note 9
Investment Income

	1999			1998
	Income (a)	Change in Fair Value	Total	Total
	($ thousands)			
Deposits and Fixed Income Securities:				
Deposit in the Consolidated Cash Investment Trust Fund	$ 327	$ -	$ 327	$ 282
Canadian Dollar Public Bond Pool	13,463	(16,689)	(3,226)	22,102
Private Mortgage Pool	2,901	(2,830)	71	3,164
Floating Rate Note Pool	55	(47)	8	-
Real Rate of Return Bonds	15	(30)	(15)	984
Private Bond Pool	-	3	3	1,735
	16,761	(19,593)	(2,832)	28,267
Equities:				
Canadian Pooled Equities Fund	2,196	38,093	40,289	(4,270)
Domestic Passive Equity Pooled Fund	20,043	22,101	42,144	(17,082)
External Managers Fund (Canadian)	799	8,313	9,112	627
Private Equity Pool	174	589	763	(64)
Structured Note and Transition Account	-	1,355	1,355	12,946
Domestic Structured Equity Pooled Fund	43	(3)	40	(3)
External Managers Fund (Global)	1,353	25,149	26,502	22,343
External Managers Fund (United States)	218	6,160	6,378	7,439
EAFE Structured Equity Pool	4,552	(90)	4,462	-
US Passive Equity Pooled Fund	4,300	(1,226)	3,074	5,680
US Structured Equity Pool	551	34	585	-
United States Pooled Equities Fund	1	(367)	(366)	(1,127)
Global Structured Equity Pooled Fund	4,761	(2)	4,759	5,868
Private Real Estate Pool	2,128	644	2,772	2,530
	41,119	100,750	141,869	34,887
	$ 57,880	**$ 81,157**	**$ 139,037**	**$ 63,154**

(a) Income is comprised of dividends, interest and rental income net of pooled funds management and associated custodial fees.

Note 10
Contributions

	1999	1998
	($ thousands)	
Current and past service		
Employers	$ 13,881	$ 12,528
Employees	12,593	11,424
Unfunded liability		
Employers	1,113	1,030
Employees	1,113	1,030
Province of Alberta	1,856	1,716
Transfers from other plans	37	29
	$ 30,593	**$ 27,757**

Note 11
Administration Expenses

	1999	1998
	($ thousands)	
General administration costs	$ 447	$ 333
Investment management costs	167	170
Actuarial fees	16	38
	$ 630	$ 541

General administration costs including plan board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Treasury and do not include pooled funds management and associated custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $165 per member (1998: $146 per member). The $19 per member cost increase in 1999 is attributed to the following factors: increase in business process reengineering cost $24, increase in plan specific cost $9, decrease in operating cost $11, and decrease in investment management cost $3.

Note 12
Transfer from the Indexing Fund to the Plan Fund

Transfer from the Indexing Fund to the Plan Fund is determined by the plan's actuary to finance the payment of cost-of-living increases by the Plan Fund for pensionable service from 1996 to 1998 [see Note 1(i)].

Note 13
Remuneration of Board Members

Remuneration paid to board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chairman	Members
Remuneration Rate for 1999		
Up to 4 hours	$ 138	$ 102
4 to 8 hours	235	168
Over 8 hours	372	265

	1999	1998
During 1999, the following amounts were paid:		
Remuneration		
Chairman	$ 4,258	$ 2,375
Members (6)	18,060	11,078
Travel expenses		
Chairman	4,698	1,747
Members (6)	21,973	12,628

Remuneration with respect to the board member nominated by the Government of Alberta belongs to the Crown, and is to be paid to the Provincial Treasurer.

Note 14
Budget Information

The accrued benefits are based on the Special Forces Pension Board's best estimates of future events after consultation with the plan's actuary. Differences between actual results and management's expectations are disclosed as net experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

Note 15
Uncertainty Due to the Year 2000 Issue

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the plan, including those related to stakeholders, suppliers, or other third parties, have been fully resolved.

Note 16
Responsibility for Financial Statements

These financial statements were prepared by management and approved by the Special Forces Pension Board.

Schedule A

Schedule of Investments in Canadian Dollar Public Bond Pool (a) (b)

December 31, 1999

($ thousands)

	1999		1998	
	Plan's Share	**Total Pool**	**Plan's Share**	**Total Pool**
Deposit in the Consolidated Cash Investment Trust Fund	$ 2,029	$ 56,800	$ 1,582	$ 46,902
Public Fixed Income Securities				
Government of Canada, direct and guaranteed	76,775	2,148,862	90,174	2,673,774
Provincial:				
Alberta, direct and guaranteed	1,276	35,707	6,602	195,750
Other, direct and guaranteed	42,575	1,191,633	39,040	1,157,596
Municipal	3,200	89,549	2,167	64,266
Corporate	120,366	3,368,956	98,190	2,911,470
Private Fixed Income Securities				
Corporate	37,409	1,047,046	38,366	1,137,571
Total deposit and fixed income securities	283,630	7,938,553	276,121	8,187,329
Receivable from sale of investments and accrued investment income	3,542	99,143	3,749	111,173
Liabilities for investment purchases	(544)	(15,218)	(1,125)	(33,341)
	2,998	83,925	2,624	77,832
	$ 286,628	**$ 8,022,478**	**$ 278,745**	**$ 8,265,161**

(a) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Markets Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and bond related derivatives. Competitive returns are achieved through management of portfolio duration and sector rotation.

(b) Fixed income securities held as at December 31, 1999 had an average effective current yield of 6.47% per annum based on market value (1998: 5.44% per annum). The following term structure of these securities as at December 31, 1999 is based on par value.

	1999	1998
	%	
under 1 year	11	11
1 to 5 years	34	36
5 to 10 years	29	26
10 to 20 years	17	18
over 20 years	9	9
	100	100

Schedule B

Schedule of Investments in Canadian Pooled Equities Fund (a)

December 31, 1999

($ thousands)

	1999		1998	
	Plan's Share	**Total Pool**	**Plan's Share**	**Total Pool**
Deposit in the Consolidated Cash Investment Trust Fund	$ 337	$ 5,550	$ 487	$ 7,321
Canadian Public Equities (b):				
Common shares and rights:				
Communications and media	13,009	214,030	4,268	64,115
Conglomerates	7,619	125,354	5,601	84,138
Consumer products	5,134	84,470	8,122	122,014
Financial services	21,270	349,923	27,244	409,265
Gold and precious minerals	5,455	89,748	5,379	80,800
Industrial products	49,024	806,528	21,458	322,345
Merchandising	2,672	43,958	2,609	39,192
Metals and minerals	6,152	101,204	4,736	71,135
Oil and gas	14,366	236,341	9,860	148,122
Paper and forest products	3,161	52,005	2,545	38,238
Pipelines	2,139	35,188	3,326	49,968
Real estate and construction	4,240	69,754	2,764	41,512
Transportation and environmental services	2,896	47,643	4,127	61,998
Utilities	21,934	360,855	13,809	207,427
Passive index	975	16,036	577	8,663
	160,046	2,633,037	116,425	1,748,932
Receivable from sale of investments and accrued investment income	553	9,090	1,600	24,034
Liabilities for investment purchases	(499)	(8,202)	(1,175)	(17,657)
	54	888	425	6,377
	$ 160,437	**$ 2,639,475**	**$ 117,337**	**$ 1,762,630**

(a) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the Toronto Stock Exchange 300 Index while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in the Canadian market. Risk is reduced by prudent security selection and sector rotation.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

Schedule C

Schedule of Investments in Domestic Passive Equity Pooled Fund (a)

December 31, 1999

($ thousands)

	1999		1998	
	Plan's Share	**Total Pool**	**Plan's Share**	**Total Pool**
Deposit in the Consolidated Cash Investment Trust Fund	$ 4,018	$ 57,310	$ 1,730	$ 34,407
Short-term Securities	628	8,960	650	12,924
Floating Rate Note Pool	58,175	829,873	29,300	582,896
	62,821	896,143	31,680	630,227
Canadian Public Equities (b):				
Common shares and rights:				
Communications and media	7,697	109,805	2,975	59,184
Conglomerates	3,133	44,694	1,958	38,966
Consumer products	5,288	75,435	3,984	79,267
Financial services	13,955	199,073	11,728	233,311
Gold and precious minerals	3,524	50,268	2,963	58,961
Industrial products	32,977	470,418	10,572	210,306
Merchandising	3,508	50,047	2,180	43,386
Metals and minerals	3,828	54,609	1,900	37,807
Oil and gas	9,495	135,433	5,090	101,252
Paper and forest products	3,361	47,950	1,467	29,186
Pipelines	1,463	20,865	1,703	33,881
Real estate and construction	2,215	31,596	1,270	25,262
Transportation and environmental services	1,597	22,781	1,343	26,723
Utilities	14,592	208,154	6,845	136,165
	106,633	1,521,128	55,978	1,113,657
Passive Index Domestic Structured Equity Pooled Fund	295	4,210	-	-
	-	-	6,099	121,340
	106,928	1,525,338	62,077	1,234,997
United States Public Equities	-	-	127	2,535
Receivable from sale of investments and accrued investment income	7,551	107,720	1,837	36,530
Liabilities for investment purchases	-	-	(472)	(9,383)
	7,551	107,720	1,365	27,147
	$ 177,300	**$ 2,529,201**	**$ 95,249**	**$ 1,894,906**

(a) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. A portion of the portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 100 Index and the TSE 35 Index. The other portion of the portfolio fully replicates the TSE 300.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

Schedule D

Schedule of Investments in External Managers Fund

December 31, 1999

($ thousands)

	1999		1998	
	Plan's Share	**Total Pool**	**Plan's Share**	**Total Pool**
Foreign Public Equity Pools				
Multi Region	$ 25,848	$ 919,706	$ 47,779	$ 1,069,544
Europe	34,001	1,018,169	35,639	835,531
Pacific Basin	29,469	882,206	19,841	457,418
Emerging Markets	2,494	76,055	2,104	47,107
	91,812	2,896,136	105,363	2,409,600
United States	38,754	1,518,742	25,520	597,487
Canadian Public Equity Pools				
Large Cap	52,954	1,055,108	36,050	646,679
Small Cap	17,795	466,572	16,487	428,952
	70,749	1,521,680	52,537	1,075,631
	$ 201,315	**$ 5,936,558**	**$ 183,420**	**$ 4,082,718**

(a) The External Managers Fund is managed by external managers with expertise in global and Canadian equity markets. The objective of the fund is to provide investment returns higher than the total return of the applicable Morgan Stanley Capital International, Standard & Poor and Toronto Stock Exchange indices over a four-year period. The portfolio is comprised of publicly traded equity securities on Canadian and approved foreign markets. Risk is reduced through manager, style and market diversification.

(b) The following is a summary of assets and liabilities of the External Managers Fund as at December 31, 1999.

	1999	1998
	($ thousands)	
Cash and short-term securities	$ 97,347	$ 189,924
Receivables from sale of investments and accrued investment income	8,418	18,071
Investments		
Public equities	5,839,208	3,914,560
Convertible bonds	1,500	1,173
Liability for investment purchases	(9,915)	(41,010)
	$ 5,936,558	**$ 4,082,718**

TERMS

Active Member
A member who is making contributions or, if not making contributions, is on non-contributory leave for up to three years, on approved disability leave, or at the point of maximum pensionable service (35 years).

Active Management Strategies
These strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the TSE 300 for Canadian stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

Asset Mix
The percentage of a plan's assets allocated to the major asset classes (for example, 45% fixed income and 55% equities).

Benchmark
A standard against which others are measured. For the purposes of this report, benchmarks are established income indices (listed in percentages) used to measure the health of the Fund's investment returns.

Bond
A promissory note issued by a company or government which bears a fixed maturity date and rate of return.

Deferred Member
A member who is no longer employed by a Plan employer, has left his/her contributions in the Plan, and has yet to choose a pension option.

Emerging Markets
An economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece, and Brazil.

Equity
Stock; the ownership interest in a company.

External Manager
A third-party firm contracted to provide investment management services.

Interest Rate Sensitive Equity
Equity whose return is expected to react to changes in interest rates.

Large Cap
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

Manager Structure
Manager structure refers to the number and mandates given to a Plan's investment managers. Manager structures can be built around balanced fund mandates where the manager invests across multiple asset classes (Canadian stocks, Canadian bonds, U.S. and International stocks) or specialty mandates where the manager invests in a single asset class. In the case of a specialty mandate the focus can be very specific such as investing in only Canadian small capitalized companies.

Passive Equity
Equity bought as Toronto Index Participation Units (TIPS), allowing a fund to buy into the top 35 companies on the Toronto Stock Exchange.

Passive Strategies
These strategies involve investing to replicate the performance of a given market index such as the TSE 300 for Canadian stocks or managing asset class exposure to match the performance of an established policy asset mix such as 50% TSE 300 and 50% Scotia Capital Markets Universe.

Pensioner
A member, surviving spouse, or beneficiary who is receiving a pension from the Plan.

Policy Benchmark
A benchmark return for the Fund which is composed from the long-term asset mix policy and the benchmark indices for each major asset class.

Real Return Bond
A fixed-income investment product (a bond) whose return is linked to the real interest rate to generate a specified real rate of return.
Related terms: The real interest rate is the nominal (set) interest rate minus inflation. The real rate of return is the return achieved by an asset after adjustments for inflation.

Small Cap
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

Statement of Investment Policies and Goals
A policy document set by the Board to establish the asset mix of the Fund, the manner by which Investment Management Division may invest assets and the specific holding limits for each type of security.

Swaps (Structured Investments)
A contract between two parties to pay the other party the return on an underlying investment.

T-Bill
Short-term government security.

Time-weighted Return
Is a series of dollar weighted rates of return designed to reduce the impact of the cashflows on the funds performance. Since the fund manager usually has little control over the timing of the cashflows, the time-weighted return is used to measure the performance of the fund managers.

Total Return
Interest income or loss plus price increases or decreases.

Unfunded Liability
An unfunded liability exists when the actuarial valuation determines that the Fund's accrued liabilities exceed the net assets available for the payment of benefits.

INDICES

Consumer Price Index (CPI)
Measures the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Russell Canadian Property Index
Measures the total return attributable to Canadian commercial real estate. Maintained by Frank Russell, the index is compiled and reported every three months.

Morgan Stanley Capital International World Index
Measures the total return attributable to the largest capitalized companies on the world's major stock exchanges. Maintained by Morgan Stanley, the index is compiled and reported monthly in local and common currencies.

Scotia Capital Markets Universe Bond Index
Measures the total return attributable to bonds. Maintained by ScotiaMcLeod and includes representative bond issues by issuer (Federal, Provincial, Municipal, and Corporate), by quality (AAA, AA, A, and BBB), and term (short-, mid-, and long-).

Scotia Capital Markets 91-Day T-Bill Index
Measures the total return attributable to 91-Day T-Bills. Maintained by ScotiaMcLeod.

SEI Median Manager
A reference point for measuring Investment Management Division's performance. SEI Canada Financial Service Limited conducts surveys of balanced fund managers on a quarterly basis to create the SEI Universe. From this, SEI Canada determines the median (or middle-ranked) manager.
Related Terms: SEI (Canada) Financial Services Limited is an independent firm that evaluates and reports on investment performance. A balanced fund is an investment portfolio with a mix of bonds, preferred stocks, and common stocks designed to conserve the investor's initial principal, pay current income, and achieve long-term growth.

Standard & Poor's 500 Index
Measures the total return attributable to the 500 largest capitalized companies on US stock exchanges.

TSE 300 Index
Measures the total return attributable to the 300 largest capitalized companies traded on the Toronto Stock Exchange. Maintained by the Toronto Stock Exchange, the index is compiled and reported on a daily basis. The index's composition is adjusted annually.

Board Members – 2000

Employee Nominees

Ulysses Currie, Chair
Edmonton Police Association

Colin Catonio
Lethbridge Police Association

Harvey Cenaiko
Calgary Police Association

Employer Nominees

David Carpenter, Vice-Chair
City of Lethbridge

Al Habstritt
City of Calgary

Randell Garvey
City of Edmonton

Crown Nominee

Janina Vanderpost
Government of Alberta

Board Secretary

Jim Millard
Alberta Pensions Administration Corporation

Administrator

Alberta Pensions Administration Corporation

Fund Management

Investment Management Division
Alberta Treasury

Actuary

William M. Mercer Limited

Auditor

Auditor General of Alberta

Contact Board Members at:

Special Forces Pension Board
3rd Floor, Park Plaza
10611 – 98 Avenue
Edmonton, Alberta T5K 2P7

Phone:	(780) 427-2782
Fax:	(780) 427-1621
In Alberta, call toll-free:	1-800-661-8198
e-mail:	sfpp.bd@apa.gov.ab.ca
APA Web site:	www.apaco.ab.ca